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1 April 2005

Andrew Walker
Director – Transmission Networks Regulation
Ofgem
9 Millbank
London SW1P 3GE

Dear Andrew,

OFGEM OPEN LETTER ON LONG TERM DEVELOPMENT STATEMENTS

This document is the formal response to the above consultation by MGN Gas Networks (UK) Limited (MGN). MGN has signed an Option Deed with National Grid Transco (NGT) to acquire the Wales and the West (W&W) Distribution Network (DN) being sold by NGT. The transaction is conditional on a number of events, including the consent of the Gas and Electricity Markets Authority.

Please feel free to contact either Ed Beckley (020 7065 2039) or Julian Bagwell (020 7065 2412) should you wish to discuss any of the contents of MGN's response to your consultation.

Yours sincerely
MGN Gas Networks (UK) Limited

Howard Higgins
Division Director

Edward Beckley
Senior Manager

OFGEM OPEN LETTER ON LONG TERM DEVELOPMENT STATEMENTS

MGN GAS NETWORKS (UK) LTD RESPONSE TO CONSULTATION

Ofgem has published an Open Letter on Long Term Development Statements (LTDS) that will in future be required both from the NTS licensee and from each DN. The letter looks at a number of areas in relation to content, format and timing of these statements. MGN's response is set out below, and follows the order of issues set out in the Open Letter.

General

MGN supports the concept of providing greater transparency where appropriate. We also believe, however, that the costs and benefits of disclosure need to be considered, and that where additional detail is costly to provide and/or keep up to date, for relatively limited benefit, then it ought not to be provided unless there are overriding reasons to do so.

In the present case, new licence drafting has had to be introduced to cover the creation of Distribution Networks (DNs) as separate entities and a number of issues arise, including the appropriate level of detail to be included in any DN LTDS and how DN level statements link to those at the NTS level. We are not in favour of total disclosure of network plans, for a number of reasons; apart from those that relate to security and allied matters, the costs would be disproportionate, we do not detect a groundswell of support from developers and others that use such statements, and we also think it important not to create a separate and expensive database that might be seen as replacing the need for discussion between developers and network owners. Furthermore, given the assumption that all network constraints can be relaxed in timescales greater than three years, then certain detailed plans and associated capacities might be otiose in relation to particular developer concerns, underlining the need for discussions at the network level. In parallel, subsequent plans can defer or bring forward investment projects identified in previous plans, underlining the need for developers to talk to network owners rather than rely on published plans. The key challenge is therefore to strike an appropriate balance that suits the needs of interested parties. We explore this balance in the remainder of this response. We also note the comments in the Open Letter regarding consultation prior to the introduction of specific requirements, and we assume that such consultation will take place at a future date, and is not covered by the remainder of the Letter.

Scope

Ofgem has requested views on the appropriate level of detail within DN LTDSs under a number of specific headings:

A full description of the development plans at the LTS level, including details of all expected projects and forecasts for 10 years ahead.

We accept that detail should be provided in relation to the LTS. Care needs to be taken in terms of the definition of expected projects, and we assume that this relates to DN plans, and not projects by third parties of which the DN is aware, unless it is clear that these are not commercially confidential. There also needs to be some *de minimis* limit on reporting all projects and the ability to make some generic forecasts, in terms of investments and likely capacities, beyond the normal time horizon for planning specific investments.

Some development plans for the intermediate pressure system (IPS), including details on significant projects

We believe that developers and other interested parties want information primarily on the ability of the network to provide gas at particular locations. We therefore think that the level of detail for the IPS should be very limited, and should focus on network capacities and extension plans. In addition, IPS plans tend to cover a shorter timescale than ten years and any requirement for additional detail here could create additional costs, not just in terms of publication, but in all the supporting analyses to support what is published. In our experience, IPS plans tend to be more fluid in any event, and we would not wish to be

committed to certain plans if the passage of time indicated a more cost effective way of dealing with particular network constraints.

Forecasts of demand at the LDZ level

In principle, these can be provided. The key issue will be the degree of disaggregation required, and we would prefer to limit this, primarily to avoid issues of disclosure, if only by implication, of the plans of third parties of which we are aware. We also believe that consideration should be given to some form of linkage between demand forecasts and investment plans, so that interested parties can see how our forward plans are shaped by our forecasts of where in particular incremental demand will arise

Information of any gas supply or storage facility that is likely to be connected to the DN

We think that there is a potential dilemma here, in terms of the degree of disclosure set against any confidentiality requirements that interested parties may impose when discussing their forward plans with us. In that context, it will also be necessary to be more precise about the term 'likely' as that can cover a variety of schemes in various stages of planning and execution. Subject to these issues being resolved, we believe that it would be appropriate to disclose such information, especially when it impacts network capacities and the potential value at different offtake points, as this will in turn influence capacity trading through the 'exchange mechanism' previously described by NGT in relation to NTS exit reform. An associated point here is whether disclosure through the LTDS or in some other manner is appropriate in terms of market timescales and any potential impact on differential values of offtake at different nodes.

Investment plans and likely commercial developments including, for example, potential reforms of the existing arrangements.

We are not sure what 'investment plans' are covered here that are not already included under the first two headings in this section. Whilst we accept that the LTDS should take account of any potential reforms, we are not sure that the statement should be the place where such reforms are first disclosed, which is one interpretation of this heading.

Scope of the LTDS for the NTS

In principle, we believe that the NTS LTDS should change as little as possible. We agree that linkage between that statement and those of DNs should be discussed, and that some account should be taken of DN demand forecasts.

Format of LTDS for the NTS and DNs

Again we believe that a minimal change approach is appropriate. We therefore support the retention of the present NTS format, subject to it being capable of adaptation for DN purposes. We believe that some coordination of plans between the NTS and DNs is sensible, although we note that in previous DISG discussions Ofgem have had concerns as to how this would work in practice; we therefore think that some 'rules of the road' would need to be developed to handle such coordination in ways that would not raise any competition or discrimination concerns.

Timing of Publication of LTDS by the NTS and each DN

We support the proposals here and made some similar suggestions in an earlier consultation response. In addition, we believe that coordination should work both ways and that DN plans need to recognise NTS plans. We suggest keeping to the present timescales, but also requiring DNs in their statements published in September to describe any changes from the statement published in the previous September that resulted from the DN statement published in the previous December. Given that the statements cover a ten year period, the nine month difference is not ideal but probably acceptable in most cases.

Notwithstanding the above comments, it should be noted that present processes rely on forecasts produced in May, which lead to investment plans at the DN level that are not usually finalised until October. It may not be possible to advance these processes for 2005, and it may be appropriate to relax the September deadline for that year.

Future Review

We accept the need for a review to deal with unexpected consequences, although it would be preferable for that review to be required by the Authority – there is no point doing a review if all parties agree that no unexpected consequences have arisen.

END